

Duchesne County Special Service District No. 2

FINANCIAL STATEMENTS

Year Ended December 31, 2005

Duchesne County Special Service District No. 2
Duchesne County, Utah

GENERAL PURPOSE FINANCIAL STATEMENTS

Year Ended December 31, 2005

Table of Contents

Table of Contents	2
Independent Auditors' Report	4
Management Discussion and Analysis	5
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Reconciliations:	
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Fund Financial Statements:	
Balance Sheet—Governmental Funds	13
Combined Statement of Revenues, Expenditures, and Changes in General Fund Balance	14
Statement of Revenues, Expenditures, and Changes in General Fund Balances—Budget and Actual—General Fund	15
Notes to Financial Statements	16
Compliance and Control (Yellow Book) Report	23
State of Utah Compliance Report	24

Financial Section



AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

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Independent Auditors' Report

Duchesne County Special Service District No. 2
Duchesne County, Utah

We have audited the accompanying financial statements of the governmental activities, each major fund, aggregate remaining fund information, and budgetary comparison information of the District as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, aggregate remaining fund information, and budgetary comparison information of the District as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5 through 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Aycock, Miles & Associates, CPAs

April 27, 2006

Management's Discussion and Analysis

As management of the Duchesne County Special Service District No. 2 (the District), we offer readers of the District's financial statements this narrative overview and analysis of financial activities of the District for the fiscal year ended December 31, 2005.

Financial Highlights

- Assets exceeded liabilities at closest year-end: $\$1,889,815 - \$320,981 = \$1,568,834$. Of this amount, $\$1,568,834$ is unrestricted and available to meet the District's ongoing obligations.
- Net assets increased $\$365,547$.
- Fund balances increased $\$365,547$.
- Unrestricted net assets increased $\$365,547$.
- The District had no long-term debt at the closest year-end.
- The District's total assets of $\$1,889,815$ were 100.0% cash and receivables.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements—The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets present information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include road projects and general administration. The District has no business-type activities.

Governmental-wide financial statements can be found later in this report, see the Table of Contents for page numbers.

Fund financial statements—A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds—Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of the revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, both of which are considered to be major funds.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found later in this report, see the Table of Contents for page numbers.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found later in this report, see the Table of Contents for page numbers.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$1,568,834 at the close of the most recent fiscal year.

The largest portion of the District's net assets were unrestricted net assets at 100%. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Capital assets (e.g., machinery, equipment, etc.) comprised 0% of total net assets, less any related debt used to acquire those assets that is still outstanding.

Net Assets	Governmental Activities	
	2005	2004
Current and other assets	\$ 1,889,815	\$ 1,203,287
Net capital assets	-	-
Total assets	1,889,815	1,203,287
Long-term liabilities	-	-
Other liabilities	320,981	-
Total liabilities	320,981	-
Net assets:		
Invested in capital assets, net of related debt	-	-
Restricted	-	-
Unrestricted	1,568,834	1,203,287
Total net assets	<u>\$ 1,568,834</u>	<u>\$ 1,203,287</u>

The District's net assets increased by \$365,547 during the current fiscal year. Projects are, for the most part, fully funded by mineral lease payments and payments in-lieu of taxes from the State of Utah.

Government activities—Governmental activities increased the District's net assets by \$365,547, thereby accounting for 100% of the growth in total net assets. Key elements of this increase are as follows.

Change in Net Assets	Governmental Activities	
	2005	2004
Program revenues:		
Charges for services	\$ -	\$ -
Operating grants	-	-
Capital grants (mineral lease)	2,245,906	1,431,889
General revenues:		
Property taxes	43,319	42,068
Earnings on investments	33,528	13,029
Total revenues	2,322,753	1,486,986
Expenses:		
Road projects	1,951,669	962,095
Administration	5,537	3,823
Total expenses	1,957,206	965,917
Increase in net assets	<u>\$ 365,547</u>	<u>\$ 521,068</u>

Amount of spending increased significantly for road projects. Road projects will vary from year to year based on mineral lease funding, etc. Administration expenses also increased from the prior year because board expenses went up.

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds—The focus of the District's governmental funds is to provide information on near-term flows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,568,834, an increase of \$365,847 in comparison with the prior year. This entire total amount is unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unrestricted fund balance of the general fund was \$2,470, while total general fund balance was the same balance. As a measure of the general fund's liquidity, it may be useful to compare both unreserved general fund balance and total fund balance to total fund expenditures—in this case, they are the same amount. Unreserved fund balance represents less than 1% of total general fund expenditures. The capital projects fund will likely fund most the road projects next year.

The fund balance of the District's general fund decreased by \$838 during the current fiscal year. Although road projects were less than revenue sources, a large balance was transferred to the capital projects fund. The result was a small decrease in the general fund balance.

The capital project fund has a total fund balance of \$1,566,364. The capital projects' fund balance increased \$366,385 because of a transfer of \$366,385 from the general fund for future road projects.

Fund Budgetary Highlights

The District's road project expenditures were less than budgeted amounts. Please refer to the budget vs actual financial statements for detail regarding the budget.

Capital Asset and Debt Administration

Capital assets—The District did not have any capital assets for its governmental activities as of December 31, 2005. There was no capital asset activity during the year. Road projects are done for Duchesne County and any new roads or streets are in the name of Duchesne County.

Long-term debt—At the end of current fiscal year, the District did not have any long-term debt. The District does not maintain a debt rating. State statutes limit the amount of general obligation to 12% of the District's taxable fair market value and do not limit the amount on revenue bond debt the District may issue. In either case, an election must be held although there are some exceptions to revenue bond issuance.

Economic Factors and Next Year's Budgets and Rates

The general fund and capital projects fund budget for next year are similar to the most recent year-end's budget. Road projects are budgeted for as necessary based on the needs of Duchesne County and the funding available from mineral lease payments received from the State of Utah.

The District does not assess a property tax.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Duchesne County Special Service District, Attn: Ms. Mascaro, 234 North Center, Duchesne, Utah 84021.

Duchesne County Special Service District No. 2
STATEMENT OF NET ASSETS
December 31, 2005

	Governmental Activities
ASSETS	
Cash (Note 2)	\$ 732,258
Mineral lease payment receivable	<u>1,157,557</u>
Total Assets	<u>\$ 1,889,815</u>
 LIABILITIES	
Accounts payable	\$ 320,981
Long-term debt	<u>-</u>
Total Liabilities	320,981
 NET ASSETS	
Invested in capital assets, net of related debt	-
Restricted	-
Unrestricted	<u>1,568,834</u>
Total Net Assets	<u>1,568,834</u>
Total Liabilities & Net Asset Balances	<u>\$ 1,889,815</u>

Duchesne County Special Service District No. 2

STATEMENT OF ACTIVITIES

For the year ending December 31, 2005

Functions	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	
Governmental Activities:				Total
Road projects	\$ 1,951,669	\$ -	\$ 2,245,906	\$ 294,237
Administration	5,537	-	-	(5,537)
Total	\$ 1,957,206	\$ -	\$ 2,245,906	288,700
General Revenues:				
Property taxes (payments in-lieu of taxes)				43,319
Earnings on investments				33,527
Total General Revenues				76,846
Change in Net Assets				365,547
Beginning Net Assets				1,203,287
Ending Net Assets				\$ 1,568,834

Duchesne County Special Service District No. 2
RECONCILIATIONS BETWEEN GOVERNMENT-WIDE AND FUND FORMATS
For the year ending December 31, 2005

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Total Fund Balances for Governmental Funds	\$ 1,568,834
No applicable reconciling activity	<u>-</u>
Total Net Assets of Governmental Activities	<u>\$ 1,568,834</u>

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities**

Net Change in Fund Balances--Total Governmental Funds	\$ 365,547
No applicable reconciling activity	<u>-</u>
Change in Net Assets of Governmental Activities	<u>\$ 365,547</u>

Duchesne County Special Service District No. 2
BALANCE SHEET--GOVERNMENTAL FUNDS
December 31, 2005

	<u>Major Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Governmental Funds</u>
ASSETS			
Cash (Note 2)	\$ 2,470	\$ 729,787	\$ 732,258
Mineral lease payment receivable	-	1,157,557	1,157,557
Total Assets	<u>\$ 2,470</u>	<u>\$ 1,887,345</u>	<u>\$ 1,889,815</u>
 LIABILITIES			
Accounts payable	\$ -	\$ 320,981	\$ 320,981
Total Liabilities	-	320,981	320,981
 FUND BALANCES			
Unreserved:			
General fund	2,470	-	2,470
Capital projects fund	-	1,566,364	1,566,364
Total Fund Balances	<u>2,470</u>	<u>1,566,364</u>	<u>1,568,834</u>
Total Liabilities & Fund Balances	<u>\$ 2,470</u>	<u>\$ 1,887,345</u>	<u>\$ 1,889,815</u>

Duchesne County Special Service District No. 2
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE--GOVERNMENTAL FUNDS
For the year ending December 31, 2005

	Major Funds		Total Governmental Funds
	General Fund	Capital Projects	
REVENUES			
Mineral lease payments	\$ 2,245,906	\$ -	\$ 2,245,906
Payments in-lieu of taxes	43,319	-	43,319
Total Revenues	2,289,225	-	2,289,225
EXPENDITURES			
Administration fees	3,933	-	3,933
Office supplies	36	-	36
Professional fees	1,442	-	1,442
Public relations	126	-	126
Capital outlay:			
Road projects	1,951,669	-	1,951,669
Total expenditures	1,957,206	-	1,957,206
Excess of revenue over (under) expenditures	332,019	-	332,019
OTHER FINANCING SOURCES & USES			
Interest income	33,527	-	33,527
Operating transfers	(366,385)	366,385	-
Total Other Sources & Uses	(332,858)	366,385	33,527
Excess revenues & other financing sources over (under) expenditures & other financing uses	(838)	366,385	365,547
Beginning fund balance	3,308	1,199,979	1,203,287
Ending fund balance	\$ 2,470	\$ 1,566,364	\$ 1,568,834

Duchesne County Special Service District No. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES--BUDGET AND ACTUAL--GENERAL FUND
For the year ending December 31, 2005

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Mineral lease payments	\$ -	\$ 2,160,000	\$ 2,245,906	\$ 85,906
Payments in-lieu of taxes	-	40,000	43,319	3,319
Total Revenues	-	2,200,000	2,289,225	89,225
EXPENDITURES				
Administration fees	4,090	4,090	3,933	157
Office supplies	200	200	36	164
Professional fees	1,500	1,500	1,442	58
Public relations	200	200	126	74
Capital outlay:				
Road projects	-	2,200,000	1,951,669	248,331
Total expenditures	5,990	2,205,990	1,957,206	248,784
Excess of revenue over (under) expenditures	(5,990)	(5,990)	332,019	338,009
OTHER FINANCING SOURCES & USES				
Interest income	5,990	5,990	33,527	27,537
Operating transfers	-	-	(366,385)	(366,385)
Total Other Sources & Uses	5,990	5,990	(332,858)	(338,848)
Excess revenues & other financing sources over (under) expenditures & other financing uses	-	-	(838)	(838)
Beginning fund balance	3,308	3,308	\$ 3,308	-
Ending fund balance	\$ 3,308	\$ 3,308	\$ 2,470	\$ (838)

Duchesne County Special Service District No. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 Summary of Significant Accounting Policies

Reporting Entity—The Duchesne County Special Service District No. 2 was created by Duchesne County. At year-end, the District's phone number was (435) 738-1100. The purpose of the District is to receive mineral lease payments and payments in-lieu of taxes for the purpose of developing and maintaining roads within Duchesne County.

The accounting policies of the Duchesne County Special Service District No. 2 conform to generally accepted accounting principles as applicable to governmental units. For financial reporting purposes, the District has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete.

The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and the (1) ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. The District has no component units and is a component unit of Duchesne County.

Government-Wide and Fund Financial Statements—The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent of fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation—The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Duchesne County Special Service District No. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* is the government's fund to account for capital projects and overhead that can be submitted to grantors for reimbursement.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Deposits and Investments—The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables—All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles. Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances from/to other funds" (i.e., the noncurrent portion of interfund loans). Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property Taxes—The District does not assess a property tax.

Duchesne County Special Service District No. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Inventories and Prepaid Items—All inventories are valued at cost using the first-in/first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets—At times, the District may have funds set aside that are legally restricted or their use is limited by certain covenants.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Equipment	7-8
Vehicles	5
Office equipment	5
Computer equipment	3

Compensated Absences—The government's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Duchesne County Special Service District No. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The District has no long-term debt activity.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgetary Data—Budgets are presented on the modified accrual basis of accounting for all governmental funds of the District. The following procedures are used in establishing the budgetary data:

- During November or December of each year, the manager prepares the budget for general and capital improvement funds. The manager submits this budget to the Board of Directors.
- Copies of the budget are made available for public inspection for seven days prior to adoption.
- The Board holds a public hearing on or before December 22 of each year to receive public comment on the budget. Notice of such meeting to be published in newspaper or posted 2 weeks prior to hearing.
- Budget shall be in effect subject to later amendment and shall be available for public inspection.
- Board may, by resolution, transfer unexpended appropriation from one department to another department within the same fund or they may reduce the budget in any department or fund. Specific restrictions apply.
- Board may increase the total budget in a fund after meeting notification and public hearing. The District did not increase its budget near year-end.

Duchesne County Special Service District No. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 2 Cash Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Association follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Association funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

The District's deposits consist of a checking account at Zions First National Bank with a carrying balance of \$2,470.

Custodial Credit Risk—Custodial credit risk is the risk that, in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, \$0 of the Association's bank balance of \$3,098 was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Association and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Association to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United State Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

Duchesne County Special Service District No. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses (net of administration fees), of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2005, the District had a Utah Public Treasurer's Investment Fund account balance of \$729,787. The market value and fair value of this account was the same and the investment maturity was less than one year.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years. For funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the Money Management Council does not allow the dollar-weighted average maturity of fixed income securities to exceed ten years.

Credit Risk—Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

At December 31, 2005, the District's investment in the Utah Public Treasurer's Investment Fund did not have an investment quality rating.

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Association's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

NOTE 3 Capital Asset Activity

The District did not have any capital asset activity during the year and does not have any capital assets at year-end. Road project expenses are for maintenance of existing roads that belong to Duchesne County.

Duchesne County Special Service District No. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 Long-term Debt

The District did not have any long-term debt activity during the year and does not have any long-term debt at year-end.

NOTE 5 Interfund Transfers

Transfers between the general fund and the capital projects fund are intended to fund road projects in upcoming years. These road projects are occasionally infrequent but very expensive, so the capital projects fund has been set up to accumulate funds to complete these projects.

NOTE 6 Economic Dependency

The District's principal funding source is mineral lease payments from the State of Utah. Without this funding source, the District would have only a fraction of its funding in which to operate.



AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

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**Report on Compliance and on Internal Control Over Financial Reporting Based
on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Directors
Duchesne County Special Service District No. 2
Duchesne County, Utah

We have audited the financial statements of Duchesne County Special Service District No. 2 as of and for the year ended December 31, 2005, and have issued our report thereon dated April 27, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Duchesne County Special Service District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that were required to be reported under *Government Auditing Standards*. There are separate Utah State Compliance findings.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Duchesne County Special Service District No. 2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aycock, Miles & Associates, CPAs

April 27, 2006



AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

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Utah State Compliance Report

Board of Directors
Duchesne County Special Service District No. 2
Duchesne County, Utah

We have audited the general purpose financial statements of Duchesne County Special Service District No. 2, Duchesne County, Utah, for the year ended December 31, 2005, and have issued our report thereon dated April 27, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Cash Management
Purchasing Requirements	Budgetary Compliance
Property Tax	Other Compliance Requirements

The District received nonmajor assistance: payments in lieu of taxes.

The District did receive one type of major State assistance: mineral lease payments.

The management of Duchesne County Special Service District No. 2 is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance.

In our opinion, the Duchesne County Special Service District No. 2, Duchesne County, Utah, complied, in all material respects, with the general and major compliance requirements identified above for the year ended December 31, 2005.

Aycock, Miles & Associates, CPAs

April 27, 2006